Quantity Counts

THE GROWTH OF CHARTER SCHOOL MANAGEMENT ORGANIZATIONS

NATIONAL CHARTER SCHOOL RESEARCH PROJECT
center on reinventing public education

UNIVERSITY OF WASHINGTON

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NATIONAL CHARTER SCHOOL RESEARCH PROJECT
center on **reinventing** public education

The National Charter School Research Project (NCSRP) brings rigor, evidence, and balance to the national charter school debate.

NCSRP seeks to facilitate the fair assessment of the value-added effects of U.S. charter schools and to provide the charter school and broader public education communities with research and information for ongoing improvement.

NCSRP:

- ✓ **Identifies high-priority research questions.**
- ✓ **Conducts and commissions original research to fill gaps in current knowledge or to illuminate existing debates.**
- ✓ **Helps policymakers and the general public interpret charter school research.**

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Executive Summary

Charter schools—publicly funded schools operated by independent nonprofit and for-profit organizations but responsible to public authorities—are a structural reform that has taken root in American education. Although the concept is only a decade and a half old, charter schools now exist in some 40 states and the District of Columbia, with more than one million students enrolled in about 3,600 schools.[1] This is a substantial accomplishment.

Despite that success, charter schools still enroll only about 3 percent of public school students.[2] A sober assessment of the charter school movement suggests that the easy days of charter school growth have come and gone.[3] Those in the charter movement who thought that there would be an unlimited number of capable groups clamoring to open schools have realized this is not the case. Those who thought that proven models could be rapidly scaled up have concluded that they underestimated the difficulty of creating substantially better schools from scratch. Movement leaders now must think carefully about how and under what circumstances it makes sense to open new charters. The frontier era and days of easy growth are over.

The frontier era and days of easy growth are over.

Cities like New Orleans, Chicago, and Los Angeles have turned to chartering because it is the only way they have to create alternatives to failing public schools. Yet starting and sustaining a charter has proved too great an entrepreneurial challenge for many zealous but inexperienced local groups. Foundations and advocates have turned to efforts to replicate successful schools through professional management organizations.

For-profit education management organizations (EMOs) and nonprofit charter management organizations (CMOs) represent a small but growing portion—approximately 9 percent—of charter schools nationally. Despite their small national numbers, management organizations (MOs) represent a significant focus of foundation grants and private investment and have attracted considerable attention from policymakers and media.

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[1] Robin J. Lake and Paul T. Hill, eds., *Hopes, Fears, & Reality: A Balanced Look at American Charter Schools in 2006* (Seattle: Center on Reinventing Public Education, National Charter School Research Project, 2006).

[2] Ibid.

[3] James Harvey and Lydia Rainey, *High-Quality Charter Schools at Scale in Big Cities: Results of a Symposium* (Seattle: Center on Reinventing Public Education, National Charter School Research Project, 2006).

Many expected MOs to overcome challenges faced by independent charter schools by providing centralized services to many schools, from leadership of school operations to "back-office" and other ancillary support. Proponents believed that through higher-quality management teams, a standard school model, and economies of scale, MOs could support the development of large numbers of schools, produce the financial efficiencies required to pay for the higher-quality managers and programs, and in the process provide consistently superior academic outcomes.

Based on interviews with 10 CEOs of organizations managing 10 or more schools, this report explores lessons from the experience of EMOs and CMOs and answers the following questions: What have been the challenges and coping strategies of these organizations? How can their experience inform efforts to support the continued growth of high-quality U.S. charter schools?

COMMON CHALLENGES

Because they are highly dependent on external funding from private investors or foundations, MOs are often tempted toward unrealistic promises of fast growth and low central costs in their business plans.

Starting and running charter schools simultaneously in many different locations, each with its own politics and finances, is a herculean task. National Charter School Research Project (NCSRP) interviews revealed that management organizations struggle with five obstacles:

- **Political Risk.** The creation and development of independent public schools continues to be a task dominated by political risk. Political conditions change with a new mayor, city council, school board, some other elected state or municipal official, city manager, superintendent, local events, or newspaper stories. Over the course of a year local politics may shift several times. Such risks constitute a continuing tax on MOs, as they must work harder to get and keep their charters.
- **The Tyranny of Business Plans.** Because they are highly dependent on external funding from private investors or foundations looking to invest in ambitious projects, MOs are often tempted toward unrealistic promises of fast growth and low central costs in their business plans. The pressure to keep those promises adds to the urgency to open new schools quickly and, too often, to enter into agreements with unfavorable terms or into partnerships with groups that do not fully understand or embrace the MO's core principles. Such "bad deals" can quickly result in uneven school quality, placing pressure on the MO to create bigger, more expensive central offices with tighter controls over school operations.

- **Start-Up Overload.** The challenge of building an MO requires an entirely different skill set than those skills required to start one—or even three—schools. There is an immediate need to build management capacity and systems capable of supporting a very large organization. But new MOs often fail to recognize that need and seem caught by surprise.
- **Undisciplined Client Acquisition.** Client selection often has an impact on an MO's financial sustainability. However, ideal opportunities to start charters or work with new or established schools are not abundant. Thanks to growth-hostile regulatory and political environments, opportunities are scarce and almost always include unattractive features. This reality means that MOs often have to, or choose to, pursue opportunistic and scattered growth, including partnerships under varied authorizers, local contexts, and state laws.
- **Uneven Design Implementation.** Interviewees reported difficulties in putting their instructional models into operation. Many said expectations for local partners to simply follow the MO's model are unrealistic. School sites often "cherry pick" certain elements of the design, or start with a faithful replication but drop many elements over time. MOs also struggle to find leaders and staff who understand and can implement their designs well. These problems can quickly lead to uneven results.

MOs often pursue opportunistic and scattered growth, including partnerships under varied authorizers, local contexts, and state laws.

COPING STRATEGIES

These difficulties are sobering, but may not be insurmountable. Interviews suggested that charter managers developed coping strategies through additional investment, experience, trial, error, and determination. These strategies should not yet be considered "best practices," as there is no way of confirming from the interviews alone whether these strategies lead to better results, nor whether they have been fully put into practice by the MO leaders interviewed. Still, there are lessons to be learned by those who would create new MOs or try to improve those still in existence:

- **Anticipating Political Risk.** MOs need to do on-the-ground work with local community groups as well as savvy politicking at the state level.
- **Settling on a Geographic Market.** There are numerous and significant financial and political advantages for MOs that stay regionally focused, at least until they have a proven track record on quality.

- **Paying Close Attention to Client Acquisition.** Strategic market research and effective screening of potential partners is crucial to MO success.
- **Clarifying What Is Meant by "Design Fidelity."** Establishing realistic expectations is important, but it is also necessary to define the essential features of a model as clearly as possible and make it easy for everyone to observe whether the model is being implemented.
- **Paying Attention to School Staff Pipeline.** Strategies for improving the supply of principals and teachers include broad recruitment campaigns, clarity about desirable staff characteristics, investment in training, and "grow-your-own" methods.
- **Reinforcing Means of Quality Control.** Through principal selection, performance measurement systems, and tighter legal and managerial controls, MOs can help ensure greater adherence to their design principles.

Additionally, funders and policymakers interested in the long-term viability of MOs should consider how they can help.

Funders should:

- find ways to balance a desire for ambitious expansion plans with a realistic assessment of growth rates that sustain quality
- help MOs develop realistic budget projections that fully anticipate political and implementation challenges
- encourage MOs to consider the economic and political costs of potential partnerships and expansion plans
- invest in evaluations and knowledge management systems to help new MOs decrease their learning curves and to learn what kinds of MO practices produce the best results

Policymakers should:

- convene panels of MOs to suggest ways to create growth-friendly regulatory structures at the federal, state, and local levels
- build support infrastructures in cities with large numbers of failing schools to help MOs overcome the problems detailed in this report

CONCLUSION

Public education is in dire need of functional schools, and management organizations offer an intriguing way to address that need. Those responsible for rebuilding the New Orleans public school system, for example, have relied on national charter management organizations to quickly open new, functioning schools. Yet as of 2005, there were only about 300 MO-run charter schools nationwide, not nearly enough to present a viable alternative to the thousands of failing U.S. public schools.

This report makes clear that the work of MOs is proving much more difficult and more expensive than anticipated. This is so in part because charter school opponents have been able to impose high political and legal costs on these organizations. But even without opponent-imposed costs, MOs face serious challenges—finding principals and teachers who can be trusted to run the kind of school the MO has pledged to provide, entering into stable partnership agreements, and replicating school designs with fidelity. As a result, they must spend more time on recruitment, training, assessment, and quality control than expected.

The work of MOs is proving much more difficult and more expensive than anticipated.

This report also exposes at least two important limitations of the MO strategy that those interested in the supply of high-quality charter schools should consider: (1) there may not be a linear relationship between centralization and quality, as centralization creates its own financial and operational tensions; and (2) for good or ill, management organizations seem to be re-creating many aspects of school districts.

Some charter opponents predicted that charter schools would eventually need to develop central offices very much like the ones early charter supporters so despised.[4] Do the MOs' experiences prove them right? The evidence here does not prove that point, or at least not quite. Chartering clearly needs forms of organization above the level of the school, but it is not clear that the MOs in existence today are the only or best forms of such organization.

Is There a Middle Ground?

Is there any middle ground between an atomized system of totally unrelated charter schools and the forms of industrial organization exemplified by MOs? Is it possible for charter schools to get help finding appropriate staff, assessing possible markets, monitoring instructional performance, improving teaching methods, and managing their facilities and financial obligations—without creating large bureaucracies?

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[4] Kenneth Meier and Kevin B. Smith, "Bureaucrats, Markets, and Schools," *Public Administration Review* 54 (November/December 1994): 551-558.

This study does not resolve these questions, but it highlights the need to look harder for answers—answers that might determine whether, or at least how fast, the number of charter schools will grow so that charters represent an option for most students and a real source of competition for most school districts.

INTRODUCTION

Why Learn About Managed Growth?

Charter schools—publicly funded schools operated by independent nonprofit and for-profit organizations but responsible to public authorities—are a structural reform that appears to have taken root in American education. Although the concept is only a decade and a half old, charter schools now exist in some 40 states and the District of Columbia, with more than one million students enrolled in about 3,600 schools.[5] This is a substantial accomplishment.

Despite that success, charter schools still enroll only about 3 percent of public school students.[6] A sober assessment of the charter school movement suggests that the easy days of charter school growth have come and gone.[7] Those in the charter movement who thought that there would be an unlimited number of capable groups clamoring to open schools have realized this is not the case. Those who thought that proven models could be rapidly scaled up have concluded that they underestimated the difficulty of creating substantially better schools from scratch. Movement leaders also discovered that they would need to carefully think about how and under what circumstances it made sense to open new charters.

Understanding how to identify and reproduce successful charter schools is an important part of any charter school growth strategy.

In this context, understanding how to identify and reproduce successful charter schools becomes an important part of any charter school growth strategy. As part of its effort to provide balanced research on charter schools, the National Charter School Research Project (NCSRP) has sought to explore charter school replication, expansion, and scale.

This report explores the "managed growth" efforts adopted by nonprofit and for-profit providers of charter public schools. Commonly known as EMOs (for-profit education management organizations) and CMOs (nonprofit charter management organizations), such entities represent a small but growing portion (approximately 9 percent) of charter schools nationally. Despite their small national numbers, MOs represent a significant focus of foundation grants and private investment and have attracted considerable attention from policymakers and media.[8]

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[5] Robin J. Lake and Paul T. Hill, eds., *Hopes, Fears, & Reality: A Balanced Look at American Charter Schools in 2006* (Seattle: Center on Reinventing Public Education, National Charter School Research Project, 2006).

[6] Ibid.

[7] James Harvey and Lydia Rainey, *High-Quality Charter Schools at Scale in Big Cities: Results of a Symposium* (Seattle: Center on Reinventing Public Education, National Charter School Research Project, 2006).

EMOs and CMOs represent a small but growing portion (approximately 9 percent) of charter schools nationally.

This report is based on the following sources:

- Interviews with 10 CEOs of organizations managing 10 or more schools.[9] NCSRP staff conducted these telephone interviews between January and March 2005.
- A review of business plans and press coverage of for-profit and nonprofit management organizations.
- A literature review of efforts to scale-up public education programs nationally (for example, New American Schools).

Chapter one of this report explains why growth is instrumental to the charter school movement's objectives for public school reform, its initial strategy to grow by opening new territories to charter schools, the limitations of the frontier strategy, and the shift in attention to managed growth through CMOs and EMOs. Chapter two identifies challenges faced by most or all of the more mature intermediaries covered in the interviews. Chapter three describes strategies the organizations have developed to cope with some of those challenges. The report concludes with a discussion of implications and questions for further consideration.

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[8] See for example, Eric Robelen, "Venture Fund Fueling Push for New Schools," *Education Week*, January 17, 2007, http://www.edweek.org/ew/articles/2007/01/17/19newschools.h26.html?qs=Robelen+January+17; John E. Chubb, "Should Charter Schools Be a Cottage Industry?" in *Charter Schools Against the Odds*, ed. Paul T. Hill (Stanford: Hoover Institution Press, 2006), 127-158; Rhea Borja, "Analysts Debate Long-Term Viability of EMO Model," *Education Week*, August 9, 2006; Alex Molnar, "Calculating the Benefits and Costs of For-Profit Public Education," *Education Policy Analysis Archives* 9, no. 15 (April 24, 2001), http://epaa.asu.edu/epaa/v9n15.html.

[9] No claims are made here that these conversations constitute a statistically meaningful sample of the kinds of organizations surveyed, that the interviewees might have said different things on the record, or that other managers from the same organizations would not have offered different insights. The research was intended to start the research community down the long road to wisdom by asking key decisionmakers with significant experience in important organizations to share their narratives.

CHAPTER 1

The Quest for Scale

QUALITY AND QUANTITY: THE DUAL CRITERIA OF SUCCESS

Charter schools are independent public schools operated by private entities under contract-like relationships with school districts and other government authorities as permitted by state law. The first such law was passed by Minnesota in 1991. Like proponents of home and private schooling, charter advocates have sought to harness the interests of parents, educators, and administrators in escaping poorly performing district-run schools and to demonstrate the potential for new, high-performing schools. Unlike home school and voucher advocates, who favor alternatives to public education, charter supporters hope their schools will lead to a reform of public education by transforming it into a system of autonomous schools overseen by public authorizers. This hope has attracted many supporters to the charter school movement, including leaders of both major political parties and many mainstream foundations.

Transformation is a numbers game.

Transformation is a numbers game. As some charter supporters argue, the goal is to create enough high-quality charter schools that school districts will either feel compelled to make changes in response to a massive outflow of students and staff to the superior charter schools, refuse to change and go out of business, or be replaced with a system of charter schools by legislators.

CHARTER LEGISLATION FRUSTRATES SCALE

Despite supporters' hopes for large scale, most states with charter laws did not create open markets for public schools.

Despite charter supporters' hopes for large scale, most states with charter laws did not create open markets for public schools. Opponents and advocates both feared they might lose crucial votes on laws that placed charters on an equal footing with school districts. The result was a compromise that granted varying degrees of charter school autonomy, but placed greater or lesser restraints on the supply of charter schools. Most charter laws prohibited for-profits from holding charters directly. Most placed legislative "caps" on the number, size, or location of charter schools. Most offered relatively low per-pupil payments when compared to the total financial resources made available to traditional public schools. Many left chartering solely to the unfettered discretion of school districts.

States without such constraints have many more charter schools. States like Arizona, where for-profits may hold charters, and Michigan and Ohio, where school districts are not the only authorizers and per-pupil payments are relatively high, tend to have more and larger charter schools. Still, most advocates recognized constraints as political "givens." They understood that legislative impediments were not likely to be changed until charter schools proved their worth academically.

ORGANIC GROWTH AND THE FRONTIER STRATEGY

Throughout the 1990s, advocates more or less promised legislators and foundations a steady stream of parents clamoring to send their children and groups ready, willing, and eager to open great schools. They proved right on demand, but wrong about supply.

Almost every charter school has been oversubscribed and overenrolled from the moment it began accepting student applications. And almost every state that passed a charter law experienced an initial "land rush" to open schools. But most of the schools opened were small, tended not to grow much beyond their initial enrollment, and did not prove vastly superior to the other public schools in their communities. In most states, the number of new starts began to fall off within a few years.

Those who thought the demand for new schools could be met by harvesting the organic supply of people with great ideas just waiting for an opportunity to put them into practice were sorely disappointed.

Even given the legal constraints, the number, sources, and capacity of charter applicants proved disheartening to policy advocates. Those who thought the demand for new schools could be met by harvesting the organic supply of people with great ideas just waiting for an opportunity to put them into practice were sorely disappointed. The vast majority of mainstream parents, teachers, and social activists interested in serving their own communities simply lacked the capacity to run anything more than the smallest of schools. Large numbers of local nonprofits with inherent organizational capacity were not drawn to charter schooling as extensions of their social-service missions. The initial supply of charter applicants was overrepresented by local advocates with a missionary zeal to open charter schools, regardless of the challenges they would encounter.

Perhaps because few had ever run a school, business, or government entity—let alone all three—most advocates could not truly appreciate that starting independent charter schools would be an extreme entrepreneurial challenge. The state-level technical-assistance activities that foundations established to facilitate supply helped charter *applicants* with the authorization process and provided political representation with government. However, most of these activities did little to help groups that had won charters meet the practical challenges of opening and operating independent public schools. For example, within the first year of implementing Minnesota's law, it was readily apparent that charter operators were having enormous difficulty finding key services in the general economy—including facilities, insurance, and special education.

Throughout the charter movement's first decade, the real engine of overall school growth was a national political campaign to expand the number of states with charter laws and make existing laws more friendly to charter growth. Luminaries from the charter movement and local education reformers allied with various combinations of voucher advocates, business organizations, and school reform interests to lobby state governments to make it easier to get a charter. Political momentum generated in one state helped convince legislators in the next.

Throughout the charter movement's first decade, the real engine of overall school growth was a national political campaign to expand the number of states with charter laws and make existing laws more friendly to charter growth.

Within a few years of the millennium, the legislative landscape was set. States without charter laws were not likely to change their minds. States with onerous restrictions were not likely to alter them significantly. Politicians' interest in the promise of charter schools gave way to demands for proof of performance. The charter movement's frontier era was over.

A PARALLEL HISTORY: EMOS

Education management organizations (EMOs) entered the vocabulary around 1995, when Edison Schools dropped its plan to operate a nationwide chain of private schools in favor of entering the new public school market created by state charter school legislation and by urban districts' growing interest in outsourcing the operation of problem schools. Three kinds of EMOs emerged during this period:

- National firms similar in organization to Edison (Advantage, headquartered in Boston; Beacon, in Nashville; Mosaica, in Atlanta) offering schools complete control of all school operations or component services, including in-school programs, "back-office" services (like information management and payroll), and professional development of teaching staff
- State-based firms developing a distinct market niche (National Heritage, in Michigan; White Hat, in Ohio; Opportunities for Learning, in California; Acadia NorthStar, in North Carolina)

- “Virtual” EMOs based on distance-learning technologies (for instance K12, headquartered in Virginia). Virtual EMOs are not covered in this report.

Whatever their services, these firms shared a common business model:

- Administer a higher-quality program than what the average school could muster,
- Leverage it across a very large number of schools, and
- Exploit economies of scale in ways that yield attractive profits and consistently superior academic performance.

In essence, these businesses proposed to run schools or school activities like a school district, but run them better over a much broader geographic area, and for less.

In terms of outcomes, no EMO has a consistent record of breakthrough educational results or consistent academic failure. Profitability is a different matter. Although their finances are hard to penetrate, by all external indications the state-based firms have prospered. However, national EMOs financed with venture capital encountered great difficulty. To date, many more investors have lost rather than made money. The national firms’ initial business plans did not survive, since they were unable to keep to the ambitious growth schedules required to become profitable before their initial capital infusion was depleted. Most of the early national firms went out of business or were forced to merge.

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SITUATION REPORT: 2001

Charter schools had graduated from what most districts considered minor annoyances to become serious competitors for public school students.

By the end of its first decade, the charter school idea had moved beyond the academic seminar, pilot site, and journal article to become a firmly rooted fixture of education policy. Some 40 states and the District of Columbia had passed enabling legislation, allowing over 3600 charter schools to serve some one million students.[10] Federal education law had come to treat charters like other public schools and included funding streams to help with start-up and disseminating best practices. In cities like Dayton, Ohio, Mesa, Arizona, Detroit, Michigan, and Washington, D.C., charter schools had undoubtedly graduated from what most school districts considered minor annoyances to serious competitors for public school students. Predictions that the movement could have a comparable impact on public school choice and student performance seemed entirely plausible.[11] All this happened despite steady opposition from teachers unions at the local, state, and national levels.

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[10] Lake and Hill, *Hopes, Fears, & Reality 2006.*

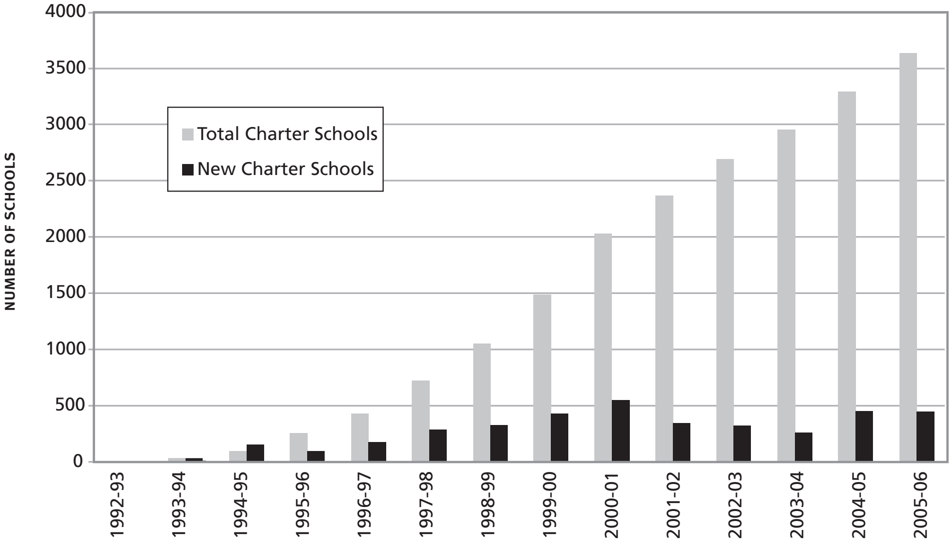
[11] Robin J. Lake and Paul T. Hill, eds., *Hopes, Fears, & Reality: A Balanced Look at American Charter Schools in 2005* (Seattle: Center on Reinventing Public Education, National Charter School Research Project, 2005).

Yet only about 3 percent of the nation's public school students were attending charters, and charter school quality was mixed. Nationally, the number of students in charter schools was smaller than the number of students enrolled in private schools or educated at home. The very charter advocates who promised (and expected) clear wins in student outcomes were reduced to making the same arguments about student readiness and evaluation methodology heard from defenders of the status quo a decade earlier.

Nationally, the number of students in charter schools was on par with those in private schools or educated at home.

Nor, despite the large numbers of schools in a few localities, was chartering anywhere near becoming universal or forcing transformation of district-run schools. Though in its early days movement leaders talked about "tipping points," beyond which chartering would force change throughout public education, by 2001 they realized that the number required to initiate any transformative scenario on a national scale was closer to thousands more charter schools, not hundreds.[12] At the same time, new-school starts were leveling, or even falling (see figure 1).

FIGURE 1: CHARTER SCHOOL GROWTH: NEW & TOTAL CHARTER SCHOOLS 1993-2006



Source: Unless otherwise noted, the figures reported here come from NCSRP's annual survey of state charter school offices conducted between May and July 2006. For more detailed information about the survey and its results, see the NCSRP web site: www.ncsrp.org. The numbers of all public school students and public schools nationwide in 2004-06 come from the National Center for Educational Statistics (NCES) Common Core of Data. Figures relating to legislative activity were provided by Todd Ziebarth at the National Alliance for Public Charter Schools. The numbers of charter schools and charter school students from 1992-2004 are from the Center on Education Reform.

By 2001, [charter movement leaders] realized that it would take thousands more charter schools, not hundreds, to initiate any transformative scenario on a national scale.

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[12] Progressive Policy Institute, *From Margins to Mainstream: Building a Stronger Charter School Movement* (Washington, DC: Progressive Policy Institute, 2003), Marc Dean Millot, pp. 16–19, http://www.ppionline.org/documents/Charter_Conf_Essays_0703.pdf.

TOWARDS A STRATEGY OF "MANAGED" GROWTH

Charter supporters had not given up hope for large numbers and ultimate transformation of public education, but they knew those goals would be hard to reach.

By 2001, the charter school movement had no choice but to shift its strategy to intensive growth. Quality required intensive work; without quality the movement would stall, not grow. Future growth would depend on nurturing a pipeline of qualified operators, creating institutions that could sustain charter schools despite the local economy, and pushing states to remove legal constraints that discouraged growth.

The movement's intellectual leaders and financiers became preoccupied with questions of how and under what circumstances new charters should be attempted. The frontier "land rush," in which new operators were welcome even if they were undercapitalized, financially primitive, politically naive, or educationally unprepared, was over. Similarly, inattentive operators who would let almost any group have a charter were recognized as liabilities to the movement. The movement's legislative support was threatened, and it could not afford large numbers of problem schools or the bad press they generated. Charter supporters had not given up their hope for large numbers and ultimate transformation of public education, but they now knew those goals would be hard to reach.[13]

THE RISE OF THE CMO

Even as the largely disappointing EMO story played out, the charter movement hung its hopes for expansion on centrally directed nonprofits for a growth trajectory that would make charters a more serious competitor to school districts.

Even as the largely disappointing EMO story played out, the charter movement hung its hopes for expansion on centrally directed nonprofits for a growth trajectory that would make charters a more serious competitor to school districts. Like their for-profit predecessor, the centrally directed nonprofit is intended to overcome challenges faced by independent charter schools by aggregating the capacity to provide essential services to schools—from leadership of school operations to "back-office" and other ancillary support. Like EMOs, charter management organizations (CMOs) all had some identifiable instructional model—a curriculum and approach to instruction that, if not unique to their schools, was common among them.

Also like EMO founders, CMO proponents believed that higher-quality management teams, which offered a standard school model and operating practices and exploited economies of scale, could support the development of large numbers of schools, produce the financial efficiencies required to pay for the higher-quality managers and programs, and in the process provide consistently superior academic outcomes.

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[13] Progressive Policy Institute, *From Margins to Mainstream.*

The CMO phenomenon can be traced to the time when Don Shalvey (former San Carlos, California, superintendent) teamed up with multimillionaire education activist Reed Hastings to form Aspire Schools. Business leader Hastings thought for-profit firms generated too much controversy and too little profit to survive. Shalvey was a respected educator who could inspire other educators to take risks and work together in new ways. Aspire's early momentum created a kind of "buzz" that inspired other pro-charter foundations to back similar nonprofit management organizations. In 2000, the Bill & Melinda Gates Foundation took another step in this direction by committing $36 million to five organizations with plans to replicate their model schools across California.[14] Today, foundations have financed the formation and staffing of approximately 100 CMO schools across the nation via Silicon Valley's NewSchools Venture Fund.[15]

Why did EMOs struggle? Are CMOs encountering similar problems?

Why did EMOs struggle? Are CMOs encountering similar problems? To answer these questions, NCSRP researchers Lydia Rainey and Guillermo Maldonado interviewed ten senior managers from both kinds of organizations working with 10 or more schools. Between January and March 2005, Rainey and Maldonado spoke with leaders at the nonprofit Aspire Public Schools, High Tech High, The Big Picture Company, KIPP, EdVisions, and New Technology Foundation, and with their for-profit counterparts at Chancellor Beacon Academies, Charter Schools USA, Edison Schools, and White Hat Management. The following sections document the early barriers CMOs and EMOs faced, lessons they have learned, and challenges that remain.

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[14] "New Technology High School Receives $4.9 Million from the Bill & Melinda Gates Foundation," November 14, 2000, http://www.gatesfoundation.org/UnitedStates/Education/Announcements/Announce-313.htm.

[15] See http://www.newschools.org/portfolio/ventures.

CHAPTER 2

Challenges Faced by CMOs and EMOs

OPERATIONAL SIMILARITIES AND DIFFERENCES

CMOs and EMOs share a business model that leverages a headquarters staff across multiple schools, but they differ in more ways than just tax status.

Finances. For-profit EMOs obtain their start-up capital as some combination of personal funds, loans, and equity investment. They receive their income as fees for services rendered. CMOs obtain foundation grants as start-up capital to build organizational capacity, but, like EMOs, their revenues come in the form of fees earned by operating schools. And like EMOs, they propose to become financially sustainable on that basis.

Services. The bulk of most EMOs' activities remains the operation of schools, but they do not always manage the whole school or provide the entire range of services required to run a school. In most states, for-profits cannot hold charters on their own, so EMOs often operate schools under contract to a nonprofit charter holder that may decide to provide some services itself. Recently, most EMOs have broken their services into optional packages so that these can be sold to school districts. This lets EMOs sell to a broader public school market that is not limited to charter schools, in hopes of gaining higher profit margins.

There are CMOs that manage their original school directly but otherwise only provide schools with services aimed at replicating the first school's educational program.

Nonprofit CMOs can hold charters in almost every state that allows charter schools. Most nonprofit school managers dispense with intermediaries and control their schools directly. Still, there are CMOs that manage their original school directly but otherwise only provide schools with services aimed at replicating the first school's educational program. Such decentralized CMO models are often referred to as "franchise" or "network" organizations.

COMMON CHALLENGES

Starting and running charter schools simultaneously in many different locations, each with its own politics and finances, is a herculean task. NCSRP interviews revealed that management organizations struggle with five obstacles:

- Political risk
- The tyranny of business plans
- Start-up overload
- Undisciplined client acquisition
- Uneven design implementation

> *Starting and running charter schools simultaneously in many different locations, each with its own politics and finances, is a herculean task.*

Political Risk

The creation and development of independent public schools is an emerging market dominated by political risk. Political conditions can change with a new mayor, city council, school board, some other elected state or municipal official, city manager, superintendent, local events, or newspaper stories. Over the course of a year local politics may shift several times.

The sources of political risk in local markets for public schools begin with school districts' and teachers unions' continuing interest in preventing extensions of the law favorable to charter operators and in rolling back the laws to make charter schools even less attractive. Add the competitive advantages enjoyed by school districts—such as higher per-pupil payments, "free" municipal services, and access to the bond process. Even when a charter school is authorized by an entity other than the local school board, districts may control key support functions, like school real estate, and have some influence with city and county governments that control transportation and enforce building and safety codes. Districts and teachers unions also have natural allies in other state and local government agencies, elected officials, and other public employee unions that oppose "privatization" of government functions and can make life difficult for charter operators. Jonathan Hage, CEO of Charter Schools USA, noted that even after a charter school is up and running, local politics constitute a continuing tax on MO operations: "The continued political undercurrent requires charter operators to spend an enormous amount of time defending [themselves] . . . while still having to operate schools."

> *"The continued political undercurrent requires charter operators to spend an enormous amount of time defending [themselves] . . . while still having to operate schools."*
>
> JONATHAN HAGE,
> CHARTER SCHOOLS USA

The Tyranny of Business Plans

Unlike the few self-funded EMOs, most for-profits and all nonprofits are created with external financing. The promises made to investors or foundations can become obstacles to success. Groups seeking money are tempted to promise a great deal, and groups with money to invest are drawn to ambitious plans.

Investors in MOs require business plans that include a timetable for adding schools, enrollment, and revenues; describe the monthly cost of developing the staff and infrastructure ("burn-rate"); and project a date when revenues will match expenses ("break-even"). To demonstrate the timetable's plausibility, the business plan presents evidence of demand for the product or service, analyzes the MO's position relative to competition, and lays out the marketing strategy management will pursue to attract revenues.

Based on the plan, management then asks investors to fund the difference between revenues and expenses up to some point on the timetable (possibly but not necessarily break-even). To get money, management must typically give up something: part ownership in return for venture capital, a security interest, and (often) managers' personal assets in return for a loan. New nonprofits in search of grants offer seats on the board and other controls, like approval of key staff or decisions about localities in which the firm will operate. Managers are then accountable to investors for "making plan."

All business plans are tyrannical to the extent that a material failure to make plan results in unpleasant consequences for management. If an externally financed EMO fails to achieve revenue targets, managers will almost certainly be subject to contractual penalties, including giving up more of their company, control of the board, or their positions to investors. CMO managers may also cede control to venture philanthropists, but since they have no legal ownership of the nonprofit enterprise, what they really lose is the credibility and legitimacy required to lead their organization. More importantly, whether the source of start-up capital is venture investment or a philanthropic grant, any delay in growth delays the revenue from student tuitions.

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Start-Up Overload

New management organizations are simultaneously involved in multiple start-ups—of schools, financial and facilities management organizations, human resource offices, and marketing initiatives, among others. Wade Dyke, formerly of Chancellor Beacon

"Anyone who hopes to open more than one school a year has to face up to the kind of resources they are going to need to do this successfully."

WADE DYKE,
FORMERLY OF
CHANCELLOR BEACON
ACADEMIES

Academies, which had 34 schools before it merged with Imagine Schools in 2004, put it like this:

> *Once you are beyond 100 or 150 students, the size of the endeavor gets quite complicated. [A team planning to open a school needs to include] a fairly broad spectrum of skills. These range from real estate, to construction, to equipping, training, and installing an educational program, including IT. It is a very complicated endeavor, and anyone who hopes to open more than one school a year has to face up to the kind of resources they are going to need to do this successfully.*[16]

Even success building one model school may make it easy to underestimate the operating infrastructure, back-office, and direct support required for an organization to replicate several schools in different locations at once." For example, Doug Thomas of EdVisions, a Minnesota network of 21 schools, noted that "you can't provide enough upfront information, training, and professional development. There is just no end to how much need there is."

Charter operators are often starved of money when they need it most. New charters open the September after they are chartered, which is typically about nine months earlier. The process of finding potential sites and initiating the application process must begin nine months or more before that. This creates as much as a two-year period when the new MO will earn no fee revenues.

MOs face compelling and novel business challenges when they plan not only to reproduce a "model" school with the founders, but to train others to replicate the school at scale.

MOs face compelling and novel business challenges when they plan not only to reproduce a "model" school with the founders, but to train others to replicate the school at scale. Beyond the normal complexities associated with any new school, charter operators face a conundrum—trying to faithfully replicate the promise offered by what was originally an independent school while providing centralized direction and/or support from outside the school.

Interviewees characterize the failure to build adequate infrastructure as an underinvestment in start-up. Given the predictability of the challenges—witness the EMO experience starting a decade ago—it is also a failure to anticipate and address the highly complex task of developing adequate management capacity.

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[16] All quotes, unless otherwise cited, are based on telephone interviews with NCSRP researchers.

Undisciplined Client Acquisition

CMOs and EMOs need to acquire customers, in the form of local groups that hold charters or otherwise have the authority to hire school-services providers. When the costs of acquiring a new "customer" are high and the payoff is a long-term proposition, "client acquisition" becomes an important area of business risk.

> ***When the costs of acquiring a new "customer" are high and the payoff is a long-term proposition, "client acquisition" becomes an important area of business risk.***

An MO deciding to open a school must undertake a process of local research and on-site negotiation that can easily consume $100,000 in organizational resources, as well as many hours of the even scarcer commodity of management time, before any formal contract is signed or a charter is obtained. These costs rise the farther an organization ranges from headquarters, not merely because of physical distance, but the longer journey the parties must travel to reach a contractual meeting of the minds.

No business plan survives first contact with the market. The greater the reality gap, the further the organization falls "behind plan," and the worse the likely impact on senior managers' decisions. They cannot afford to focus on just one problem at a time or stretch out the plan in order to guarantee quality. As time passes, money evaporates. This can set off a death spiral. If the enterprise is required to cut costs in central support and marketing and outreach, achieving growth targets can become even harder, followed by another round of cost cutting. Managers approaching this brink become susceptible to rash decisions, wasting resources to pursue any and all potential partners and selecting inappropriate partners who consume higher than expected support resources, yield disappointing student outcomes, and discourage future partners.

Venture-financed EMO managers quickly realize that the growth targets in their business plans are unrealistic and their burn rate is higher than expected. Instead of conceding that their targets are unrealistic, managers conclude they must pursue every opportunity and work with whomever is available. Nonprofits, too, feel a sense of urgency to choose schools from the available candidates, since the grant revenue providing start-up and implementation assistance requires that they work with schools within a set period. Only the self-financed for-profits seem to have the ability and discipline to wait for the "right" opportunity and remain financially sound.

Local Partners. Most of the organizations in this study used financial evaluations to explore a potential new school, but it does not appear that the up-front costs of delay—the possibility of the school's opening later than expected and therefore taking longer to produce revenues—were factored in.

Ideal opportunities to start charters or work with new or established schools have not proved abundant.

When high acquisition costs are compounded by political risk, client selection can have a material impact on an organization's financial sustainability. Ideal opportunities to start charters or work with new or established schools have not proved abundant. Instead, opportunities are scarce and almost always include unattractive features. Moreover, opportunities arise with little notice and on tight deadlines, and circumstances often change in material ways before any contract is signed. Opportunities can also disappear after an MO has made a significant investment of resources. Local politics and other circumstances vary and change constantly.

Interviewees confirmed the importance of knowing a great deal about a locality before committing money to it. Their organizations tended to adopt a "who-you-know" approach to establishing their initial schools. CMO The Big Picture Company, with 11 charter schools and activities in a dozen states, began by opening schools in locations where they knew and trusted people. But even then, friends and allies could not overcome local opposition. Big Picture came to focus on areas with a favorable political climate.

Interviewees explained how management and staff trying to start several schools at once were stretched thin by competing demands from multiple authorizers during the application phase and school start-up. They were often saddled with additional political and communications burdens placed on "outsiders." They complained about the practical difficulties of conforming their organizations' school models and central business operations to different legislative regimes and regulatory frameworks, and that the costs of accommodating so many local differences invalidated business plan assumptions about economies of scale.

Many interviewees admitted that their organizations spent too little time determining the circumstances under which they should pursue a new school opportunity or turn it down.

Many interviewees admitted that their organizations started out spending too little time determining the circumstances under which they should pursue a new school opportunity or turn it down. Most revealed that initially they did not "target" districts or states, but responded to opportunities as they presented themselves. With the benefit of hindsight, they recognized that the sites that ultimately proved most successful followed a pattern. Those sites enjoyed a high level of parental demand for new or better schools, community groups committed to starting schools, foundation funding, and friendly authorizers. And despite the "lessons learned," interviewees also admitted still occasionally pursuing the opportunistic approach to client selection.[17]

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[17] Eight of the organizations in this study maintain at least the option of expansion based on opportunity (as opposed to expansion grounded in strategy).

Uneven Design Implementation

Constant pressure to compromise instructional models is an experience common to most efforts to replicate education programs. New American Schools design teams, for instance, faced constant pressure from the thousands of schools where they worked to deviate from designs, or to mix and match features from different designs. It is not surprising, then, that MO interviewees reported difficulties in putting their models into operation. Many said that their expectations that local partners would simply follow the model were unrealistic.

Constant pressure to compromise instructional models is an experience common to most efforts to replicate education programs.

Most of the difficulty revolved around changes sought at the replication site. For example, EdVisions uses a project-based learning model and teacher-led governance structure. Keeping that model and structure in place requires constant vigilance, according to Doug Thomas. Some of EdVisions' schools, reported Thomas, "haven't figured out how to [implement aspects of the model], or they slide backward into a more traditional model . . . I think that's a reality of almost all projects."

A similar issue revolves around "cherry picking" some aspects of the model, while ignoring others. A common complaint from respondents was the general lack of commitment to the entire model, as opposed to parts of it. So, for example, some new sites, once successfully through the first start-up phase, decided that they no longer wanted to follow the model faithfully in every respect. Often they tried to change in ways that violated some of the model's fundamental elements.

Jed Wallace noted that High Tech High started as a network of financially independent institutions, not as a management organization. Network "headquarters" typically provide advice and assistance, but there is little governance, oversight, or control. As a result, High Tech High found it difficult to insist on some of its design elements. As Wallace reported: "If a school, after initially committing to adhere to the design principles, decided to go a different direction, we really had very little leverage to bring the school back into alignment." He further indicated that because the school controlled the money, there was no recourse for the model creator when confronting changes that they felt compromised the integrity of the model.

"If a school, after initially committing to adhere to the design principles, decided to go a different direction, we really had very little leverage to bring the school back into alignment."

JED WALLACE,
HIGH TECH HIGH

A related problem is a gradual erosion of the model over time. Wade Dyke, formerly of Chancellor Beacon Academies, reported a typical problem: As time passes, local school boards press for deviations from the model. "I think over time all of the boards start to develop their own experiences and opinions on how a school should be run." Edison Schools' executives report a similar phenomenon. Providing local partners with hiring control was especially problematic at some Edison sites, since the sites might wind up with leaders uncommitted to the model.

Some respondents said that model erosion can happen even in the best schools. Having invested properly in the start-up and located the right people to staff and direct the school, MO leaders relax, and awaken too late to realize that the model is no longer fully present in the school.

Most organizations had a difficult time finding enough principals and teachers with the skills necessary to work in replicated charter schools who also agreed with their model's fundamental principles.

Locating Staff Appropriate to the Designs. Charter schools already face a limited pool of potential local charter partners, school leaders, and staff. MOs face an even smaller pool because they need talented people who also understand and agree with their educational philosophy or model. Further, experienced principals and teachers might be able to handle the purely educational aspects of their jobs in High Tech High or EdVisions schools, but they may not be prepared to work successfully in a charter environment.

Nevertheless, few MOs entered the market with plans for overcoming these barriers. Like grassroots schools, MOs expected to recruit staff from the local community. And like grassroots schools, most interviewees noted that their organizations had a difficult time finding enough principals and teachers with the skills necessary to work in replicated charter schools who also agreed with their model's fundamental principles.[18] As Elliot Washor of The Big Picture Company noted:

> *Leadership is the most pressing problem during the early, start-up phase. Searching for and selecting good principals is very time consuming. We wound up with a 'training-before-opening' philosophy—training principals for a year before opening the school. There's four months of formal classroom training, then several months of shadowing other principals, followed by work on the implementation plan on site.*

"When you hire teachers, some of them don't have a clue about what you're trying to accomplish."

DOUG THOMAS, EDVISIONS

"The lack of good teachers is a huge problem for schools generally," reported Hage of Charter Schools USA. "It's a big problem for all of us. It is hard to find a high-quality workforce of teachers."

EdVisions' Doug Thomas was even more direct: "One of the big problems during early start-up is changing mind-sets and thinking. When you hire teachers, some of them don't have a clue about what you're trying to accomplish."

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[18] Of all the challenges cited, the difficulty of finding good school leaders was the most frequently mentioned by interviewees.

The take-away lesson from this challenge is that providers very quickly realized that the kind of high-quality leadership and teaching force required to implement their models does not exist already. If charter schools are to expand in even very modest ways, charter school providers are going to have to continue to develop creative solutions to their human resource issues.

SUMMARY OF IMPLEMENTATION CHALLENGES

In all, the new management organizations entered the fray with few operating practices to cope with the challenges they would face. Model designs were rarely specified well enough to objectively measure either the importance of any particular component or the fidelity of implementation. Client selection was compromised by the pressure to add the number of schools required to achieve financial viability within the original investment. Technical-support requirements were poorly understood and consistently underestimated by management. For these reasons, goals for expansion and financial sustainability were often not met.

The findings outlined above are preliminary and suggestive, based on telephone interviews with representatives of just 10 organizations. But these organizations' experiences were consistent, and they confirm other recent analyses of charter school expansion problems.[19] In fact, variations on these five challenges—political risk, undisciplined client acquisition, under-investment at the front end, shortages of key leaders and staff, and erosion of the design over time—came up so frequently that it is clear that unless these issues are explicitly addressed by management, and the responses tested by investors, most school providers will encounter these expansion problems. The next chapter outlines how the respondents tried to deal with these challenges as they developed.

> ***Unless these issues are explicitly addressed by management, and the responses tested by investors, most school providers will encounter these expansion problems.***

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[19] See for example: Lake and Hill, *Hopes, Fears, & Reality 2005*, and Harvey and Rainey, *High-Quality Charter Schools.* Also see Steven F. Wilson, *Learning on the Job: When Business Takes on Public Schools* (Cambridge, MA: Harvard University Press, 2006).

CHAPTER 3
Coping Strategies

With time and money, the difficulties defined in the previous chapter may not be insurmountable. Interviews suggested charter managers have developed coping strategies through experience, trial, error, and determination. These strategies should not yet be considered "best practices," as there is no way of confirming from the interviews alone whether these strategies lead to better results, nor whether they have been fully put into practice by the MO leaders interviewed.

Still, there are lessons to be learned by those who would create new MOs or try to improve those still in existence. Strategies for dealing with common challenges might include:

- Anticipating political risk
- Settling on a geographic market
- Paying close attention to client acquisition
- Clarifying what is meant by "design fidelity"
- Paying attention to school staff pipeline
- Reinforcing means of quality control

Charter managers have developed coping strategies through experience, trial, error, and determination.

Anticipating Political Risk

Creating charter schools is not a job for the politically naïve. Interviewees were constant and consistent in their frustrations with political opposition and challenges to CMO expansion. All were coming to accept the highly politicized environment as an operating condition rather than a constant surprise and had started to work more strategically at building local community support.

Respondents argued that all providers should be willing to engage the political dimensions of their task. High Tech High (HTH) took its needs all the way to the state level. HTH placed such a high premium on good authorizing arrangements that it decided to seek authority for a statewide charter in California. "Under a statewide charter," said Jed Wallace, "you may open up a school anywhere within the state of California identified in the application. That means we would no longer need to seek charters through the local chartering authorities."

Since that interview, HTH received the statewide authority it sought. Although the political work involved in gaining new authority like a statewide charter may seem excessive to small charter developers, the long-term advantages may be worth the effort.

Most providers spend a lot of time making sure the community is comfortable with the organization's plans.

Most providers also reported spending a lot of time making sure the community is comfortable with the organization's plans. Educating the community is key, as far as The Big Picture Company's Elliot Washor is concerned. Helping the community understand how these new schools are different and how they can benefit students is an early step Big Picture takes, said Washor. Before opening a school, the organization identifies community leaders, parents and students, intermediaries, and local groups—and then sets out to help them understand who The Big Picture Company is and what kind of education it offers. Typically, this is an involved process. Once this community education is complete, the company works with these groups on several start-up activities, including facility development.

High Tech High reported that concentrating on the physical aspects of a new school, the building itself, often generates a lot of community enthusiasm. HTH's Jed Wallace thinks it is not a bad idea to put facilities first when approaching the community, in part because asking the community to imagine a non-existent school is difficult.

After opening a few schools, HTH learned that community members had an easier time understanding their project-based method if they had a good facility and could provide tours and drawings of the actual school to parents and community leaders. As Wallace stated: "What really serves as a catalyst for High Tech High's getting going is finding the perfect building. When you see the building, and you can put some conceptual architectural renderings together and start to present that to the local community, you can get local educators excited about potentially operating a school within such a building. We see a lot of support galvanize around that."

Settling on a Geographic Market

Concentrating schools in a state, region of a state, or city was a strategy adopted relatively early by many CMOs. Interviewees noted that the approach has many advantages, in addition to lower travel costs. MO leaders can work in communities they know and in which they already have allies, observe schools directly for purposes of quality control, develop brand identity, and develop a unified pool of principals and staff. Jed Wallace noted: “We need to have a concentration, or a pod of schools, within a distinct geography in order for it to be financially viable.” The New Technology Foundation’s Susan Schilling pointed out that there are marketing advantages associated with operating primarily in California. An existing school, she noted, “can be used in that region as a proof point for the model and propel others to adopt it.”

Paying Close Attention to Client Acquisition

Reducing the cost of finding good partners is essential to the financial viability of MOs. Problematic partners are expensive to maintain and often damage an MO’s reputation. Deciding whom to work with is one of the few decisions within a management team’s control.

Problematic partners are expensive to maintain and often damage an MO’s reputation.

Interviews revealed that some providers imported market-research techniques into the effort to find a better fit between communities and their model. These include high-level market analyses that explore environmental factors and student demographics in potential new areas. They can also include highly localized surveys and focus groups.

Nonprofits tended to spend more time explaining their model to local groups and listening to reactions to ensure prospective partners understand their educational approach and provide greater clarity around mutual expectations. For-profits were especially inclined to survey groups and individuals in different locations to find communities with high demand (for example, localities with poor-quality schools or overcrowding). Jonathan Hage explained that Charter Schools USA polls the local community to find out “what are the real issues in the community, what are the needs for schools, and what kind of schools are [parents] looking for.”

Experienced EMOs and CMOs warn that it is essential to screen potential local partners as a crucial first step in the replication process. According to Jed Wallace, “It was difficult to find truly likeminded educators and community leaders who would stay committed to the design principals that distinguish High Tech High.” Advance screening might be even more critical for networks, which typically lack the leverage of EMOs and CMOs. Two of the EMOs formalize their assessment of either local partners or leaders. Charter Schools USA developed a process that identifies the attributes needed in their principals, while White Hat Management insists that the local governing board agree that the White Hat “process” is the most appropriate way to address the educational needs of their community.

Clarifying What Is Meant by "Design Fidelity"

In the real world, charter managers found that no school implemented an instructional model perfectly. Establishing realistic expectations was important, but it was also necessary to define the essential features of the model as clearly as possible and make it easy for everyone to observe whether the model was being implemented.

Each MO has its own "non-negotiables." Some organizations are relatively flexible, while others are quite rigid.[20] Some model elements are easy to define and observe—for example, regular student assessment, use of the MO's administrative systems, school uniforms, an extended day, and programs to involve parents. However, most MOs have values and aspirations—about school culture, prioritizing student needs above all others, continuous improvement, and consistent use of common classroom pedagogy—that are much less concrete. The Big Picture Company is one of the more flexible respondents on several of these matters. Big Picture considers its core values and principles to be non-negotiable but offers partner schools considerable flexibility to implement the core principles as they see fit. Elliot Washor explained:

It is necessary to define the essential features of the model as clearly as possible and make it easy for everyone to observe whether the model is being implemented.

> *Each local site is given encouragement to innovate around the design, especially when it comes to figuring out what the design looks like locally, because the context varies for each site. Every place has a different set of rules and regulations, different testing and standards, different cultures around whether kids go to public or private colleges. So, around those pieces we would be loose and innovative.*

White Hat Management is on the other end of the spectrum, insisting on a high level of fidelity to the model. Former CEO Mark Thimmig described their philosophy:

> *We have a very specific educational model and don't allow deviation beyond that of the personalities of the people that are hired at the community level . . . We don't believe that this is something that should be modified to a great extent at the local level . . . Many aspects of the programs are completely non-negotiable. [They make up the core of] our program and we are not going to allow experimentation.*

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[20] Susan Colby, Kim Smith, and Jim Shelton, *Expanding the Supply of High-Quality Public Schools*, The Bridgespan Group, September 2005.

The costs and benefits of a more centralized approach are critical for MOs to consider (and are further discussed in later sections of this report). But regardless of philosophy, interviewees recognized the importance of clarifying agreements in memos of understanding (MOUs) or formal contracts that outline which elements of the design are non-negotiable and what consequences will come if central design elements are not implemented. Without such agreements, CMOs, EMOs, and networks risk diputes with school leaders and are vulnerable when key players (superintendents or board members) change at the local level, as they inevitably do.

Paying Attention to School Staff Pipeline

MOs try to hire teachers and principals locally, but many have become dissatisfied with the supply available and have developed some means to improve the pipeline. Interviewees emphasized the importance of making sure that the people responsible for building the new school believe in the core principles of the model. For hiring principals, strategies include broad recruitment campaigns, more clarity about desirable characteristics, investment in training, and "grow-your-own" methods. Edison Schools has a human resources department that focuses exclusively on principals. This department constantly advertises to build up a pool of possible principal candidates, and it also runs the Edison Leadership Development Academy. The training program trains principals in three key elements: how to identify great instruction, how to promote it, and how to use data to drive it. "There is a part which is being able to recruit the great principals, and then the second part is to make sure they are developed and challenged—and the good ones are retained," acknowledged Edison's Joe Keeney.

For hiring principals, strategies include broad recruitment campaigns, more clarity about desirable characteristics, investment in training, and "grow-your-own" methods.

Most said that their organizations now provide extensive training for teaching staff, including proprietary programs and ongoing, cross-site professional development. Teachers' initial training often begins only a few weeks before school opens but continues thereafter. Two interviewees emphasized the importance of developing a retention strategy. White Hat surveys its employees annually and attempts to make changes based on its findings. As a result of the information gleaned from these surveys, White Hat has made local management and operational changes, instituted additional professional development, and altered its benefit programs.

High Tech High is the first public school in California authorized to develop its own program for teacher credentialing. Candidates must complete a 15-month internship. Then, teacher training is divided into three parts: a module on project-based learning, an assessment of the teacher's skills, and visits to the first High Tech High to talk with teachers about challenging teaching issues—for example, the difficulty of mounting project-based learning in classrooms where the students may have very different ability levels.

Reinforcing Means of Quality Control

Some interviewees now consider control over principal selection to be a non-negotiable because of the essential role such leadership plays in design implementation and subsequent school operations.

Edison reported that after acquiescing in several hiring decisions, or allowing some principals to be fired by their local sponsors, the EMO found itself working with principals who didn't believe in the model. CEO Joe Keeney explained:

> *We had clients who forced out principals whom we believed in, and the schools took a turn for the worse because of that. That is probably the biggest lesson learned: We can't work with a principal that doesn't believe in the Edison design . . .*

During implementation, MOs came to employ special teams to help local groups with start-up and to develop manuals detailing the steps in the start-up process. Wade Dyke (formerly of Chancellor Beacon Academies) said of his scale-up experiences:

> *Build your systems ahead of time. Don't grow and then add your systems. It's easy to leave that until later because the problem isn't immediate, but if you leave it until later you may never fix it. Anyone who is going to a scale of 25 schools or so will be overwhelmed by them.*

"Build your systems ahead of time. Don't grow and then add your systems. It's easy to leave that until later because the problem isn't immediate, but if you leave it until later you may never fix it. Anyone who is going to a scale of 25 schools or so will be overwhelmed by them."

WADE DYKE, FORMERLY
OF CHANCELLOR
BEACON ACADEMIES

"Replication was in mind from the early stages of the foundation of the first school," said High Tech High's Jed Wallace. Many of the CEOs noted that building financial and oversight systems large enough to accommodate a large number of schools—even if there were only one or two schools—was important to long-term success. Among the systems that these organizations "overdeveloped" early were back-office supports, assessment, information technologies, professional development, and human resources.

Most interviewees came to favor tight accountability with strong central systems of performance assessment based on proprietary or state standards and assessments, as well as management systems and governance mechanisms covering the non-instructional side of school operations. Jonathan Hage explained that although Charter Schools USA does not mandate a specific curriculum, each school "must have a curriculum infrastructure that is designed to meet and exceed both state and national standards." Charter Schools USA evaluates the performance of its schools by collecting data and constantly assessing not only academic performance, but also financial performance and parent satisfaction. "The idea is to assess all points of performance . . . and use the data to make adjustments and improve general performance," said Hage.

> ***"The idea is to assess all points of performance . . . and use the data to make adjustments and improve general performance."***
>
> JONATHAN HAGE, CHARTER SCHOOLS USA

Several respondents noted the importance of improving back-office operations. In their view, improving these systems is not only basic to financial and other fundamental management functions, it is an essential means of control over design implementation. At least one organization moved towards legal control of the schools in its network to assure fidelity. To hit the standard that "every High Tech High school be a masterpiece," Jed Wallace reported that HTH had to change its organizational structure from a voluntary network to a charter management organization (CMO). He explained:

> *[As a network], schools could see that there is not that much financial incentive to stay committed to our design principles. It was then that we started talking about creating a charter management organization.*

Wallace noted the benefits of a CMO are that High Tech High has governance-level control over what is happening at all of its schools: the school's boards are centrally incorporated and are subsidiaries to the central High Tech High nonprofit board.

Both Chancellor Beacon Academies and High Tech High believe that such systems enabled them to exercise more control over schools and to strengthen and reinforce their models' vital aspects. As both organizations grew, they found that sharing management systems with their replication sites helped improve their relationship with the schools. Examples of operational duties that these organizations shared include: training and recruiting, student assessment, financial and payroll systems, authorizer reporting, legal affairs, facilities financing, special education services, and community outreach. As Jed Wallace of High Tech High described the effects:

> *[W]e find that when you have that many points of contact between your central organization and your replication site, there's just a great deal of intimacy—a higher level of relationship. I think we know a lot better what the heck is going on at all of our sites, and our sites are far more appreciative of what we are doing.*

> ***"When you have that many points of contact between your central organization and your replication site, there's just a great deal of intimacy—a higher level of relationship."***
>
> JED WALLACE, HIGH TECH HIGH

Conclusion

Public education is in dire need of functional schools, and management organizations offer an intriguing way to address that need. Those responsible for rebuilding the New Orleans public school system, for example, have relied heavily on national charter management organizations to quickly open new, functioning schools. Yet as of 2005, there were only about 300 MO-run charter schools nationwide, not nearly enough to present a viable alternative to the thousands of failing U.S. public schools.

This report makes clear that the work of MOs is proving much more difficult and more expensive than anticipated. This is so in part because charter school opponents have been able to impose high political and legal costs on these organizations. But even without opponent-imposed costs, MOs face serious challenges finding principals and teachers who can be trusted to run the kind of school the MO has pledged to provide, entering into stable partnership agreements, and replicating school designs with fidelity. As a result, they must spend more time on recruitment, training, assessment, and quality control than expected.

This report suggests ways that MOs can begin to address these barriers, but funders and policymakers interested in the long-term viability of MOs should also consider how they can help.

> ***As of 2005, there were only about 300 MO-run charter schools nationwide, not nearly enough to present a viable alternative to the thousands of failing U.S. public schools.***

Funders should:

- find ways to balance a desire for ambitious expansion plans with a realistic assessment of growth rates that sustain quality
- help MOs develop realistic budget projections that fully anticipate political and implementation challenges
- encourage MOs to consider the economic and political costs of potential partnerships and expansion plans
- invest in evaluations and knowledge management systems to help new MOs decrease their learning curves and to learn what kinds of MO practices produce the best results

Policymakers should:

- convene panels of MOs to suggest ways to create growth-friendly regulatory structures at the federal, state, and local levels
- build support infrastructures in cities with large numbers of failing schools to help MOs overcome the problems detailed in this report

This report also exposes at least two important limitations of the MO strategy that those interested in the supply of high-quality charter schools should consider: (1) there may not be a linear relationship between centralization and quality; and (2) management organizations seem to be re-creating many aspects of school districts.

> ***A direct relationship between "tight" management and quality may be true for some organizations, but the relationship has not been evident overall; many of the most centralized charter MO designs have struggled with quality consistency.***
>
> STEVEN F. WILSON, *LEARNING ON THE JOB*

THE COSTS OF CENTRALIZATION

A 2005 report by the Bridgespan Group offers a categorization of the various approaches to replication and scale-up. The authors conclude that "tighter management responsibility, support, and control or a more specific model will increase the consistency of the organization's outcomes."[21] The report also points out that such centralization is also likely to increase the cost of replication.

This NCSRP study suggests a more complex dynamic. A direct relationship between "tight" management and quality may be true for some organizations, but the relationship has not been evident overall; many of the most centralized charter MO designs have struggled with quality consistency.[22] The findings from this study suggest why:

> A centralized MO approach to replicating schools brings its own challenges, many of which can combine to work *against* consistent quality, such as pressure to "make" business plans by growing quickly. Such pressures have led MOs to undisciplined approaches to deciding with whom and where they would start new schools, as well as to inadequate investment in start-up and support infrastructure. These compromises can be costly both in terms of finances and academic results.
>
> Too many MOs have repeated avoidable mistakes. Naïve assumptions about growth goals, design fidelity, politics, and community relations have

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[21] Colby et al., *Expanding the Supply.*

[22] Wilson, *Learning on the Job*.

exacerbated already challenging scale efforts. EMOs and CMOs alike have encountered these problems. Only regionally focused and independently financed for-profit designs have achieved both consistent quality and relatively large scale. It is too early to know the record on academic outcomes and financial sustainability across CMOs of more than 20 schools, but there is certainly little rigorous evidence yet of a large scale CMO (more than 30 schools) with consistently high-quality and stable schools.

RE-CREATING SCHOOL DISTRICTS

Many of the interviewees recognized that they were, in many ways, re-creating the very district-like structure that charter schools originally sought to avoid. Aspire's start-up manual alone is now several inches thick, and other MOs have been forced to build more elaborate central structures and systems than planned. The charter school movement was founded as a reaction to an inflexible, centralized school district structure. While the MO system is not an exact replica of a school district, there are striking similarities in terms of bureaucratic buildup and tensions between centralized systems and local needs.

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The fact that MOs are coming to resemble school districts in form does not prove that they will be as inefficient or disruptive to school operations as district central offices have become. As an example, the performance incentives for CMOs make it unlikely that ineffective administrators will be moved into central office positions rather than fired. However, even when central office services are delivered efficiently and in support of coherent schools, they still spend money that early charter supporters hoped would be spent on instruction.

IS THERE A MIDDLE GROUND?

Some charter opponents have claimed that big bureaucracies are inevitable given the goals of public education, and they predicted that charter schools would eventually need to develop central offices very much like the ones early charter supporters so despised.[23] Do the MOs' experiences prove them right? The evidence here does not prove that point, or at least not quite. Chartering clearly needs forms of organization above the level of the school, but it is not clear that the MOs in existence today are the only or best forms of such organization.

> ***Chartering needs forms of organization above the level of the school, but it is not clear that the MOs in existence today are the only or best forms of such organization.***

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[23] Kenneth Meier and Kevin B. Smith, "Bureaucrats, Markets, and Schools," *Public Administration Review* 54 (November/December 1994): 551-558.

Is there any middle ground between an atomized system of totally unrelated charter schools and the forms of industrial organization exemplified by MOs? Is it possible for charter schools to get help finding appropriate staff, assessing possible markets, monitoring instructional performance, improving teaching methods, and managing their facilities and financial obligations—without creating large bureaucracies?

It might be possible for charter schools to exploit scale economies without being taken over by MOs.

This study does not resolve these questions, but it highlights the need to look harder for answers—answers that might determine whether, or at least how fast, the number of charter schools will grow so that charters represent an option for most students and a real source of competition for most school districts.

If administrative economies of scale were exploited locally, it might be possible for MOs specializing in instructional management and quality control to operate nationally or regionally.

Despite the evident problems of mechanisms now in use to expand chartering, there are economies of scale to be gained. It does not make sense to build a separate accounting and payroll system for each charter school, or to force each one to get its own legal representation or building maintenance contract. However, highly centralized MOs providing comprehensive services for their schools is not the only possible form of organization. It might be possible for charter schools to exploit scale economies without being taken over by MOs—for example, by joining together to hire financial and facilities managers, leasing from a real-estate organization that specializes in buildings suitable for use as schools, and joining risk pools for insurance and for purchase of special education services.[24] These advantages, however, might be better exploited locally, from local charter associations, nonprofits, or for-profits offering services for fees, rather than from remote national organizations. If administrative economies of scale were exploited locally, it might then be possible for MOs specializing in instructional management and quality control to operate nationally or regionally. Moreover, the relative success of state-based MOs proves the advantage of geographic concentration. National MOs like Edison might be able to operate in multiple localities, but only if they could build a critical mass of schools everywhere they worked.

Perhaps ideas for less expensive and bureaucratic approaches to scale could be drawn from private school networks (for example, those run by religious groups). Many employ small central staffs who broker mutual help arrangements among member schools and identify teachers in member schools who are ready to move into leadership positions elsewhere. In the public sector, Britain's Specialist Schools Trust uses similar techniques to promote quality and "brand" consistency at moderate cost. The larger MOs might eventually be able to devolve some functions to such networks, if they are able to pare down their central offices.

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[24] Such cooperative arrangements are being pursued in California and several other places in the country.

Other advantages of private school networks might come to MOs eventually, after they have been around long enough. Method-specific school networks like Montessori and many forms of religious schools have become attractive enough as places to work that teachers and principals pay for their own pre-service training. This greatly reduces the network's out-of pocket costs and simplifies hiring. Once MO schools are more broadly accepted, new or existing schools of education might ultimately offer training specific to working in, for example, Edison or HTH schools. Philanthropies might better help charter schools by founding dedicated pre-service training programs rather than continuing to pay heavy subsidies to MOs.

For now, however, there are more questions than answers. The first and most painful to contemplate is "how long should it take?" MOs were an effort to scale charter schools via industrial methods, yet they have so far proven unable to create human resource pools and efficient sources of services similar to those enjoyed by "branded" schools in the private sector. Is that because the method is flawed, or because such developments take a lot more time than previously assumed? After all, branded schools based on instructional philosophies like Montessori or run by religious groups like the Quakers grew organically and over decades or even centuries. Is the growth process inevitably that slow? Can the charter idea be kept alive long enough for a critical mass of networks, teachers, and vendors to grow effectively?

Branded schools based on instructional philosophies like Montessori or run by religious groups like the Quakers grew organically and over decades or even centuries. Is the growth process inevitably that slow?

There are also concrete questions that might be answered more quickly, for example:

- Are there more efficient ways to create economies of scale than today's MOs? Can MOs evolve into more efficient organizations by abandoning some of their expensive central capacity?
- Are there ways to extend economies of scale to charter schools that start out as one-off independents?
- Are there ways to create local and regional resources, including teacher- and principal-training institutions and financial services firms, that can support all charter schools?
- Can some charter schools be strengthened by joining established school networks in the private and international sectors (for example, Britain's Specialist Schools Trust) rather than being controlled by CMOs?

- Might some of these mechanisms be valuable enough to public school districts that they attract public funding and support? Will *No Child Left Behind* drive some districts to understand their problems of scaling good schools in ways that make them collaborators instead of opponents?

These questions beg for answers. Though they will not be easy to find, the National Charter School Research Project will take the first step, assembling experts from charter schools, private and international school networks, and business to begin the search for new ideas.

APPENDIX A:

Interview Protocol

The interview protocol below was fairly informal, but it helped structure the conversation with 10 CEOs of organizations developing and providing charter school options.

Following an introduction explaining the purpose of the research, NCSRP researchers immediately moved to a series of questions exploring organizational history, size, and experience with expansion.

1. When was [NAME OF ORGANIZATION] established and how long has it been in operation?
2. How many schools is [NAME OF ORGANIZATION] now operating?
3. Does [NAME OF ORGANIZATION] have a business plan? Can you describe it to us?
4. What are your goals in terms of expansion? Timelines? Size? Geographic distribution of schools, and the like?
5. What strategies are you pursuing to achieve those goals? Do the strategies rely on franchise practices? On training? Finding supportive groups or communities?
6. How have you financed those strategies?
7. How do you choose your sites?
8. What about authorizers and regulators? How do you approach them?
9. Community support is said to be essential. How do you build community support?
10. Is leadership an issue within schools? If so, how do you develop it?
11. Does [NAME OF ORGANIZATION] have a human resources strategy? What do you do to develop good staffing within your schools?
12. How do you document your core values and the non-negotiable elements of your model? Are these elements well known to your staff?
13. [NAME OF ORGANIZATION] says its core values include [CITE CORE VALUES]. Are those values what basically differentiate you from traditional schools—or are there other differentiating factors?

14. What are the main problems during the early start-up phase?
15. What are the main lessons learned during scale-up by [NAME OF ORGANIZATION]?

APPENDIX B:

Research Overview

From January through March 2005, NCSRP researchers interviewed 10 representatives of educational organizations spanning the types of organizations currently working to replicate an existing school model in new locations:

- Educational Management Organizations: a for-profit organization that directly manages schools, typically under a charter or contract with districts or authorizers.
- Charter Management Organizations: a nonprofit organization that directly manages schools, typically under a charter or contract with districts or authorizers.
- Charter School Network: an organization that works with groups to develop charter schools based on their model, but does not directly operate the schools.

Organizations that were replicating charter school designs and had more than 10 schools in operation were contacted. Appendix C lists the organizations that responded to the invitation and are included in this study sample.

The sample was not meant to be representative. The purpose of the interviews was to learn about the experiences of different types of organizations that had gone through the process of scaling-up. The open-ended telephone interviews with key decisionmakers probed their organization's growth goals, their strategies to meet these goals, lessons learned from early replication efforts, and remaining barriers.

The strategies are defined in the following ways:

- **Leadership development:** Several organizations considered developing and training leaders the main strategy for a successful replication. KIPP is one organization that relies heavily on its principals and involves them in the planning and implementation of new schools. Most of the organizations hire and train external people for the position of principal, while others promote teachers to the position or hire experienced principals.

- **Partnerships:** There are three approaches to using partnerships as a scale-up strategy: (1) with community groups mainly composed of parents and community leaders, (2) with school districts that are open to the idea of offering alternatives to the community, and (3) with philanthropies that are interested in improving the performance of students in certain regions and have identified successful schools they want to sponsor to open new schools.
- **Geographic clustering:** The idea of clustering is to develop a network of schools that share common services regardless of their geographical location. For High Tech High it is important to open several schools in a geographic area in order to make the project financially viable. This strategy helps them cut costs.
- **Technical assistance:** A few organizations use the provision of technical assistance to local groups interested in starting a charter school as their primary scale-up technique. Assistance often covers development of relationships with officials, politicians, leaders, foundations, and education regulators; identification of geographic locations and facilities; initiation of charter applications; development of management systems; and organization of community support.
- **Mergers and acquisitions:** Only one for-profit organization considered mergers with and acquisitions of existing management organizations as a strategy for achieving scale.

APPENDIX C:
Organizations in Study Sample*

NAME	TYPE OF ORGANIZATION	YEAR CREATED	# OF SCHOOLS	PRIMARY LOCATION
Aspire Public Schools	CMO	1999	11	California
High Tech High	CMO	1995	26	California
Big Picture Company	CMO/Network	2000	11	Operates in 12 states
KIPP	Network	1994	38	Operates in 14 states
EdVisions	Network	1993	21	Minnesota
New Technology Foundation	Network	1999	11	California
Chancellor Beacon Academies	EMO	1998	34	Merged with Imagine Schools in 2004
Charter Schools USA	EMO	1997	27	Florida
Edison Schools	EMO	1995	75	Operates in 19 states
White Hat Management	EMO	1998	40	Florida, Ohio

* Information current as of April 2006

The National Charter School Research Project (NCSRP) aims to bring rigor, evidence, and balance to the national charter school debate. For information and research on charter schools, please visit the NCSRP website at www.ncsrp.org. Original research, state-by-state charter school data, and links to charter school research from many sources can be found there.

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The Center on Reinventing Public Education at the Daniel J. Evans School of Public Affairs at the University of Washington engages in research and analysis aimed at developing focused, effective, and accountable schools and the systems that support them. The Center, established in 1993, seeks to inform community leaders, policymakers, school and school system leaders, and the research community.